

**PUBLIC DISCLOSURE**

October 6, 2006

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**GRANITE SAVINGS BANK**

90273

26 BROADWAY  
ROCKPORT, MA 01966

DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110

<b>NOTE:</b>	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.
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## GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **GRANITE SAVINGS BANK (or the "Bank")** prepared by the Division, the institution's supervisory agency, as of **OCTOBER 6, 2006**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

### **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"**

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire assessment area, including low and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The following is a summary of the Bank's performance under each of the five criteria.

- The majority of residential real estate mortgage loan originations during 2004 and 2005 were within the assessment area.
- An analysis of 2004 and 2005 residential real estate mortgage loan originations revealed a good dispersion of loans to low-income and moderate-income individuals.
- The geographic distribution of loans is considered to be marginally adequate. The Bank made a minimal number of loans in the moderate-income census tracts during the past two years.
- The average net Loan-to-Deposit ratio, calculated at 71.5 percent, is reasonable given the institution's size, resources and competition.
- Fair Lending performance is also considered to meet the standards of satisfactory performance and there have been no CRA related complaints since the previous examination.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Granite Savings Bank is a small savings institution chartered by the Commonwealth of Massachusetts in 1884. As of June 30, 2006, Granite Savings Bank had total assets of approximately \$57.7 million, \$37.6 million of which was in the form of loans. The Bank's main office is located at 26 Broadway in Rockport, Massachusetts. The Bank has no other full service branch office; however, a mortgage center is located nearby at 42 Broadway in Rockport. The Bank's hours are Monday through Friday 8:00 a.m. to 4:00 p.m. and Saturday 8:00 a.m. to noon. The Bank maintains an Automated Teller Machine (ATM) at the main office, which is linked to the Cirrus, NYCE, AMEX, MasterCard, Discover, The Exchange, and SUM networks.

Granite Savings Bank offers a variety of loan products including fixed rate and adjustable rate mortgage loans, construction loans, personal loans, home equity loans, home improvement loans, second mortgage loans, reverse mortgages, passbook loans and automobile loans.

The table below depicts the composition of the Bank's loan portfolio based on the Federal Deposit Insurance Corporation ("FDIC") Call Report of Condition.

<i><b>Loan Portfolio as of June 30, 2005</b></i>		
<b>Loan Type</b>	<b>\$ (000's)</b>	<b>% of Total Loans</b>
Construction & Land Development	\$2,804	7.6%
Residential Real Estate		
a. 1-4 Family Mortgages	\$24,819	66.9%
b. Home Equity Lines (1-4 family)	\$5,368	14.5%
Multifamily	\$313	0.8%
Commercial Loans		
a. Commercial Real Estate	\$3,380	9.1%
Consumer Loans		
a. Loans to Individuals	\$419	1.1%
Other Loans		
<b>Total</b>	<b>\$37,103</b>	<b>100.0%</b>

Source: FDIC Call Report of Condition, 6/30/06

As shown in the table above, residential real estate is the Bank's primary form of credit activity. Loans secured by one-to-four family residential properties account for approximately 66.9 percent of all outstanding credit. Home equity lines of credit are next with 14.5 percent, followed by commercial real estate with 9.1 percent.

Based on 2005 aggregate mortgage lending data filed under the provisions of the Home Mortgage Disclosure Act ("HMDA"), Granite Savings Bank ranked 27th among all HMDA reporting lenders within its defined assessment area and held 1 percent of the market share. There were 259 HMDA reporting mortgage lenders active within the assessment area in 2005.

In 2005, the top five mortgage lenders within the Bank's defined assessment area were: (1) Countrywide Home Loans; (2) Cape Ann Savings Bank; (3) Washington Mutual Bank; (4) GMAC Mortgage Corporation; and (5) Citimortgage, Inc. These top five lenders held a 26.8 percent market share of all mortgage loan originations reported under HMDA.

The Division previous CRA Evaluation was conducted as of September 10, 2001. Based on the Division's findings, an overall rating of "Satisfactory" was assigned. The FDIC conducted a CRA Evaluation on May 3, 2004, at which time the Bank's performance was also deemed to be "Satisfactory."

Other than the Bank's asset size and limited resources, there are no financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area.

### **Description of Assessment Area**

The CRA requires a bank to designate one or more assessment area(s) within which its record of helping to meet the needs will be evaluated. The Division evaluates the institution's CRA performance based on the defined assessment area. Generally, assessment areas are expected to consist of Metropolitan Statistical Areas ("MSA"s) or contiguous political subdivisions such as counties, cities, and towns.

The current assessment area consists of the City of Gloucester and the Town of Rockport, Massachusetts. Both of these towns are located in the Essex County MA Metropolitan Division ("MD").

### **Demographic Data**

The demographic data for this evaluation is derived from 2000 U.S. Census information. For analysis purposes, this data will be utilized in analyzing the 2004 and 2005 performance.

#### **2000 U.S. Census Data**

The assessment area is comprised of 9 census tracts: 4 moderate- and 5 middle-income tracts. There are no low- or upper-income tracts in the assessment area.

The total population of the assessment area is 38,040. This population is comprised of 16,060 households of which 5,439 (33.9 percent) are located within the moderate-income census tracts and 10,621 (66.1 percent) are within the middle-income tracts. Further, of the total family households in the assessment area, 2,247 (22.6 percent) are estimated as low-income and 2,154 (21.7 percent) are estimated as moderate-income.

The area also consists of 18,160 total housing units. Of this total, 9,768 percent are owner-occupied. A closer analysis of the total housing units reveals that the majority of the units (87.2 percent) are one-to-four family dwellings. There are 5,609 (30.9 percent) housing units within the area's moderate-income tracts; 38.3 percent are owner occupied and 57.9 percent occupied as rental units.

### **Income Data**

2000 U.S. Census data reflect the Median Family Income ("MFI") for the assessment area. The Department of Housing and Urban Development ("HUD") annually adjusts the MFI based on estimates. As reflected by HUD, the adjusted MFI for 2004 and 2005 for the Essex County MA MD is \$76,000 and \$76,700, respectively.

## ***Business Data***

Rockport and Gloucester comprise the majority of the Cape Ann area in Northeastern Massachusetts located approximately 40 miles north of Boston. Both communities have an active tourism season in the summer due to their proximity to the ocean, recreational facilities, art galleries, and historical attractions. In the past, the area, particularly Gloucester, was dominated by the fishing industry; however, in recent years federal regulations have restricted fishing activities in the area. As such, there has been a shift from fishing to retail (due to high tourist activity) and manufacturing.

With respect to local competition, Rockport National Bank, Gloucester Co-operative Bank, and Cape Ann Savings Bank all are headquartered in the assessment area. Also, there are some large regional and national banks such as Bank of America, TD BankNorth, Citizen's Bank, Eastern Bank and Sovereign Bank. In addition, several mortgage companies and mortgage brokers are active in the area's mortgage market.

## ***Community Contact Information***

A community contact was made as part of this evaluation. The contact expressed a need for additional affordable housing due to the rapid escalation in housing prices within the assessment area. Additionally, small business lending was identified as a need because of the important role in supporting the local economy. The contact commented favorably on his interactions with financial institutions in the area and felt that, overall, banks were willing to assist with the aforementioned initiatives whenever possible.

The following table provides details regarding housing characteristics.

<b><i>Selected Housing Characteristics by Income Category of the Geography</i></b>						
<b><i>Geographic Income Category</i></b>	<b><i>Percentage</i></b>					
	<b><i>Census Tracts</i></b>	<b><i>House-holds</i></b>	<b><i>Housing Units</i></b>	<b><i>Owner-Occupied</i></b>	<b><i>Rental Units</i></b>	<b><i>Vacant Units</i></b>
<b><i>Moderate</i></b>	44.4	33.9	31.0	22.0	51.4	10.4
<b><i>Middle</i></b>	55.6	66.1	69.1	78.0	48.6	89.6
<b><i>Total or Median</i></b>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: PCI Corporation, Inc. CRA Wiz

The number of households living below the poverty level in the Bank's assessment area is 8.6 percent. Unemployment figures obtained for the assessment are 4.0 percent for Rockport and 5.4 percent for Gloucester. The assessment area's unemployment rates are in line or slightly above the State unemployment rate of 5.0 percent in September 2006.

## ***Description of Aggregate Data Utilized/Lending Activity***

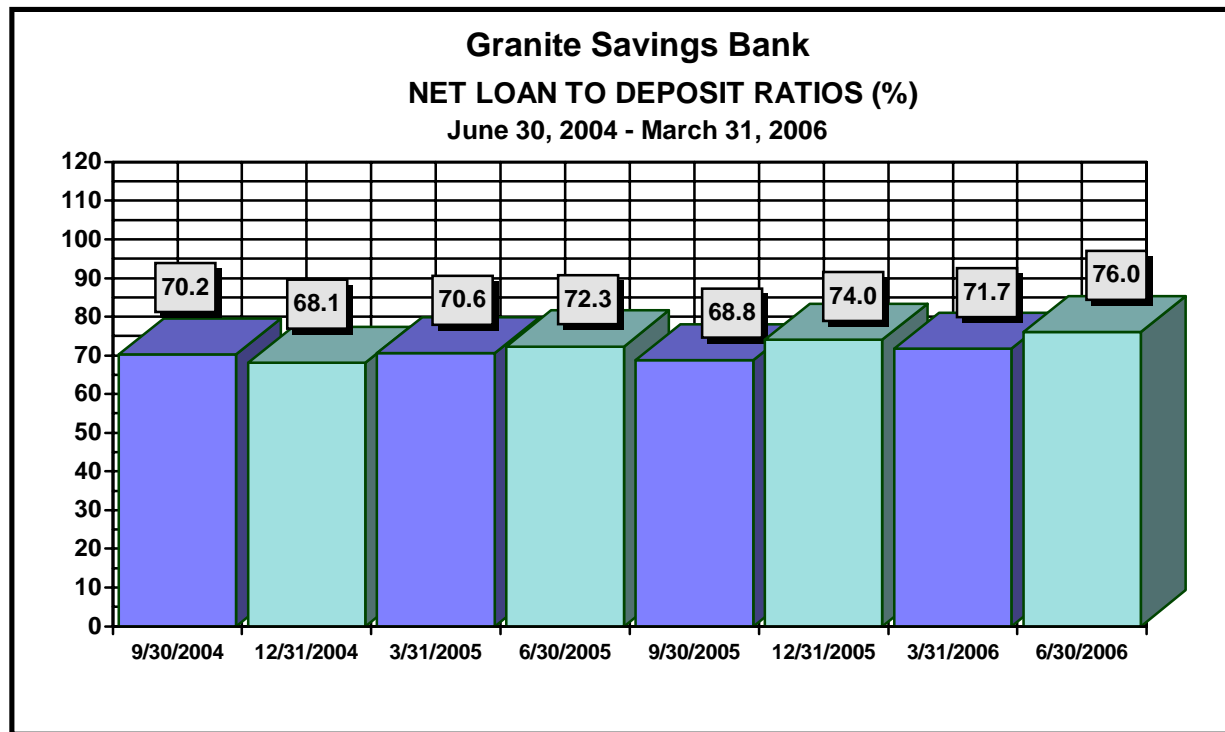
Aggregate data, for residential mortgage lending performance purposes only, constitutes (both large and small) mortgage companies, savings banks, commercial banks, co-operative banks, and credit unions, which have originated and/or purchased at least one residential mortgage and/or home improvement loan within the Bank's assessment area (source: PCI Services, Inc., CRA Wiz). There are 259 such lenders within the Bank's assessment area. The Bank ranked 27<sup>th</sup> in market share which is considered reasonable given the number of financial entities originating loans in the assessment area. The lender with the top market share was Country Wide Home Loans.

## **PERFORMANCE CRITERIA**

### **1. LOAN TO DEPOSIT ANALYSIS**

An analysis of the Bank's net loan to deposit ratio ("LTD") was performed using the FDIC quarterly Call Report. This analysis was conducted to determine the extent of the Bank's lending compared to deposits. The ratios during the last eight quarters ranged from a low of 68.1 percent in December 2004 to a high of 76.0 percent in June 2006. The average net LTD ratio for this time period was 71.5 percent, a slight decrease from 77.0 percent at the last FDIC examination in 2004. The most recent quarter ending June 30, 2006 reflects the highest amount of both net loans and deposits at \$36.7 million and \$48.3 million, respectively.

The following table details the net loan to deposit ratios for the period under review.



Source: FDIC Call Reports

Over the eight quarters reviewed, the Bank's loan activity outpaced its receipt of deposits. Total loans increased by approximately \$5 million or 16.0 percent while deposits increased by approximately \$3.2 million or 7.1 percent. The LTD ratio fluctuated over the time period with the lowest point in the fourth quarter of 2004 at 68.1 percent to the highest at quarter ending June 30, 2006 at 76 percent. Incremental growth in the LTD ratio occurred over the eight quarter time period with slight fluctuations due to refinancing and small commercial lending activities. An analysis of the Bank's loan portfolio composition revealed that the ratio of loans secured by residential one to four family homes remained relatively static at approximately 82 percent. The asset size of the institution also increased over the same time period by approximately \$3.1 million or 5.7 percent, rising from \$54.6 million to \$57.7 million.

Based on the information above, the Bank's average net loan to deposit ratio for the time period meets the standards for satisfactory performance.

## 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

Granite Savings Bank's 2004 and 2005 Loan Application Registers ("LAR"s) were reviewed to determine the amount of credit extended within their assessment area. During this time period, the Bank originated 63 HMDA-reportable loans totaling approximately \$12,328,000. Of this amount, 60 loans, or 95.2 percent were originated in the Bank's assessment area. By dollar volume, 94.0 percent of loans were originated in the assessment area.

Refer to the following tables for additional information regarding the Bank's HMDA-reportable lending, by both number and dollar amount.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area												
Year	Inside				Outside				Total			
	Number of Loans		Dollar Volume (000)		Number of Loans		Dollar Volume (000)		Number of Loans		Dollar Volume (000)	
	#	%	\$	%	#	%	\$	%	#	%	\$	%
2004	33	100.0	6,521	100.0	0	0.0	0	0	33	100.0	6,521	100.0
2005	27	90.0	5,069	87.3	3	10.0	738	12.7	30	100.0	5,807	100.0
Total	60	95.2	11,590	94.0	3	4.8	738	64.1	63	100.0	12,328	100.0

Source: HMDA LAR 2004-2005.

As indicated in the table above, the majority of loans originated during the examination period were inside the Bank's assessment area. While the volume of loan originations is low, it is noteworthy that 100 percent of loan originations in 2004 and 90 percent in 2005 were inside the assessment area.

Based on the above analysis, the Bank's comparison of credit extended inside and outside of the assessment area meets the standards for satisfactory performance.

## 3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

Under the CRA, institutions are evaluated on their lending to borrowers of different incomes, including low and moderate-income borrowers. Income level designation is based on the median family income for the MSA.<sup>1</sup> The median family income for the Essex County MSA in 2004 and 2005 are \$76,000 and \$76,700, respectively.

The following table shows, by number, the amount of HMDA reportable loans originated to low-, moderate-, middle-, and upper- income borrowers in comparison to the number of total households in the assessment area and the 2005 aggregate lending data in each respective income group.

Distribution of HMDA Loans by Borrower Income								
Median Family Income Level	% Total Households	2005 Aggregate Data (% of #)	2004		2005		Total	
			#	%	#	%	#	%
Low	27.7	5.1	1	3.0	1	3.7	2	3.3
Moderate	17.8	17.8	10	30.3	7	25.9	17	28.4
Middle	21.2	26.1	6	18.2	12	44.5	18	30.0
Upper	33.3	34.0	13	39.4	7	25.9	20	33.3
NA	0.0	16.9	3	9.1	0	0.0	3	5.0
Total	100.0	100.0	33	100.0	27	100.0	60	100.0

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

<sup>1</sup> Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper income is defined as income equal to or greater than 120 percent of the median income.

For the time period under review, the Bank originated 31.7 percent by number and 20.5 percent by dollar amount of the total loans to low and moderate-income borrowers. As shown in the table above, the Bank's percentage of lending to low-income borrowers at 3.7 percent in 2005 was below the aggregate's 2005 performance at 5.1 percent. In 2005, the Bank's lending to moderate-income borrowers was well above both the level and the percent of moderate-income households and aggregate performance levels, at 25.9 percent. Although the Bank's level of lending to low and moderate-income borrowers is good, it should be noted that any small increase or decrease in lending activity could significantly alter the Bank's performance levels.

Based on the above, the Bank's lending distribution reflects a good penetration among borrowers of different incomes and meets the standards for satisfactory performance.

#### 4. GEOGRAPHIC DISTRIBUTION OF LOANS

The HMDA-reportable loans located within the Bank's assessment area were further analyzed to determine their location by census tract income level. The Bank's geographic distribution of loans is considered to be marginally adequate.

The following table provides a breakdown, by number, of the Bank's HMDA-reportable loans within its assessment area according to census tract income level. The table also shows the loans in comparison to the percentage total of owner-occupied housing units in each of the census tract income categories. Additionally, the geographic distribution of the Bank's loans by census tract category may also be compared to that of all other HMDA-reportable lenders in the assessment area. Other HMDA-reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies. The most recent data available for this analysis relates to calendar year 2005 and is also presented in the following table.

Distribution of HMDA Loans by Income Category of the Census Tract								
Census Tract Income Level	% Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	Bank 2004		Bank 2005		Bank Total	
		2005	#	%	#	%	#	%
Moderate	38.3	27.0	2	6.1	2	7.4	4	6.7
Middle	61.7	73.0	31	93.9	25	92.6	56	93.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>33</b>	<b>100.0</b>	<b>27</b>	<b>100.0</b>	<b>60</b>	<b>100.0</b>

Source: U.S. Census, HMDA LAR, HMDA Aggregate Data

As reflected above, the Bank has actively lent within the area's middle-income tracts, but has originated only a small number of loans in the moderate-income areas. All of the moderate-income census tracts are located in the City of Gloucester.

Aggregate lending performance levels indicate activity commensurate with the percentage of owner-occupied housing units as well as a substantially higher percentage of originations than the Bank's. The Bank's local competition (Cape Ann Savings Bank, Gloucester Cooperative Bank, and Rockport National Bank) all ranked in the top 25 lenders in these areas. It appears that there are lending opportunities available in these areas, as competition was able to originate loans in these areas.

Management stated that they advertise in both Rockport and Gloucester; however, most of the Bank's mortgage activity is generated through past lending relationships, word-of-mouth and convenience of location. The vast majority of the Bank's mortgage lending activity has historically been within the Town of Rockport.



It is acknowledged that the Bank experiences strong competition, is small in asset size and has only one local branch. Originations in moderate-income census tracts have improved since the previous FDIC evaluation and year-to-date data for 2006 reveals 4 originations in these geographies.

## **5. REVIEW OF COMPLAINTS/ FAIR LENDING POLICIES AND PRACTICES**

Granite Savings Bank received no CRA related complaints in the period under review. The Bank has a satisfactory record of implementing fair lending policies and practices. The following discussion is based on the guidelines of the Division of Banks' Regulatory Bulletin 2.3-101.

The Bank's Vice President Mortgage Officer regularly attends compliance seminars which include fair lending topics. This information is then shared with the lending staff.

Granite Savings Bank offers a variety of fixed and adjustable rate mortgage products, as well as home equity lines of credit, consumer loans and commercial credit. Lending staff do not receive commission and there is no incentive to make loans based on volume or dollar amount.

Loans are priced according to secondary market guidelines and in accordance to market conditions. Any deviations from the daily rates set by the loan officer are documented in the file and approved by the Board of Investment Committee. Underwriting practices are not arbitrary and are similar to industry standards.

The Bank has a second review system in place for denied mortgage applications. The Mortgage Officer and President review the declined residential mortgage loan applications then present them to the Board of Investment Committee for final determination to ensure all applicants are treated fairly. All applicants who are denied credit are sent an adverse action notice and are advised of the action taken within 30 calendar days of receipt of the completed application.

The Bank primarily advertises through local newspapers, an area radio station, local cable access channel and sponsorship of local community activities.

A review of the Bank's residential loan application files was conducted to evaluate and check for fair lending issues. A review was also conducted for compliance with fair lending laws and regulations and no evidence of discrimination was detected.

### **MINORITY APPLICATION FLOW**

A review of residential loan applications was conducted in order to determine the number of HMDA-reportable credit applications the Bank received from minority applicants. Between 2004 and 2005, the Bank received a total of 61 residential loan applications from within its assessment area. During this period, 1 application, or 1.6 percent, was received from a minority applicant. There were no applications received from a Hispanic or Latino applicant.

Demographic data shows there are 38,040 individuals residing in the Bank's assessment area: 96.4% of this population of the assessment area is white; 3.6% is minority. There are 532 individuals of Hispanic ethnicity representing 1.4% of the population. The Bank's application flow is not representative of the population but is consistent with the aggregate when looked at in terms of the percentage of total applications received, which is relatively low.

## PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 26 Broadway, Rockport, Massachusetts 01966.

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.